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AUTHOR	Roper, Richard W.
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ABSTRACT

This report explains how welfare reform in New Jersey has served as an occasion for attempts to restructure the relations between public agencies and private service providers, and that these attempts raise important questions about who will and ought to play a part in the state's welfare programs. The historical context for privatization has changed: federal and state welfare reforms have brought new expectations and demands. Reliance on private agencies for welfare-related services began in the early 1970s when the major problem was spending federal money quickly. The private sector was more adept than government agencies at rapidly expanding their service capacity to meet new needs and use new resources. Later reforms of the contracting process sought to rein in this system and increase its financial accountability. Uncertainties of the state budget process strongly encouraged reliance on stable relationships between contractors and public agencies and on informal understandings to ensure continuity in service provision. Counties did not develop staff and administrative capacity to conduct extensive oversight of contractors' performance. The Whitman Administration's predisposition to privatization increased after enactment of Work First New Jersey, the state's new welfare program. The Administration sought to establish a system that was more accountable for performance, less fragmented or specialized, and offered greater diversity in agencies receiving grants. These objectives were not easy to implement because accountability demands considerable data collection and management capability despite expansion of the system's diversity and new capacities must be built within governments. (YLB)

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December 23, 1998

A Shifting Landscape:

Contracting for Welfare Services in New Jersey

Richard W. Roper

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Introduction

Welfare reform is not only changing how families receive public assistance, it is also changing how and by whom public authority is exercised. In this *Rockefeller Report*, Richard Roper explains how welfare reform in New Jersey has served as an occasion for attempts to restructure the relations between public agencies and private service providers, and that these attempts raise important questions about who will and ought to play a part in the state's welfare programs. A central theme of Roper's analysis is that the historical context for privatization has changed — that federal and state welfare reforms are bringing new expectations and demands to bear that differ greatly from the conditions that originally gave rise to New Jersey's system of contracting for social services.

Roper finds, for example, that the state's reliance on private agencies for welfare-related services began in the early 1970s when the major problem was spending federal money *quickly*. The private sector — and particularly the nonprofit sector — was seen as more adept than government agencies at rapidly expanding their service capacity to meet new needs and use new resources. For better or worse, private agencies did not have to deal with civil service requirements, laws governing agency structures, union regulations, and all the other constraints that inhibited adaptation in public agencies.

Later reforms of the contracting process sought to rein in this system and increase its *financial* accountability. At the same time, the uncertainties of the state budget process — particularly about *when* money would be available to pay contractors — strongly encouraged reliance on stable relationships between contractors and public agencies and on informal understandings to ensure continuity in the provision of services. These informal relationships were not terribly difficult to manage and, as a result, counties did not develop the staff and administrative capacity to conduct extensive oversight of contractors' performance. By the early 1990s, the social service contracting system was thus "stable, decentralized, complex, and in the view of many, inbred," and the counties seemed to rely on trust and personal relationships to hold providers accountable.

As early as 1993, the Whitman Administration showed a "predisposition to privatization" but wanted to bring new principles to bear on the contracting process. Its efforts have increased markedly since the enactment of Work First New Jersey. The Administration sought to establish a system that was *more accountable for performance*, using quantitative data on program outcomes, such as job placement and retention. It wanted a system that was *less fragmented or specialized* with respect to services, one com-

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posed of a smaller number of agencies, each of which provides a wide range of services, rather than a large number of highly specialized service providers. And it preferred a system with *greater diversity* in the agencies receiving grants by reducing the role of large, well-established, and politically powerful providers and enhancing the role of community and neighborhood groups and faith-based organizations.

Each of these objectives makes sense in the context of welfare reform, but, as Roper argues, they are not easy to implement. He therefore offers several important suggestions on how to put these principles into effect. First, he shows the tensions between these ideals. Accountability for performance demands considerable capability among service providers to collect and manage the appropriate data, a capacity that is not easy to reconcile with expanding the diversity of the system to include more community and faith-based organizations. Second, he calls attention to the need to build new capacities *within* governments. Counties do not now have the staff, systems, or skills to monitor contract performance in the outcome-oriented, data-driven world of welfare reform and the new devolution. Those capacities are hardly beyond reach, but they do entail major costs and upgrades in county management systems. Privatization, done right, is neither cheap nor easy.

The issues raised by Roper's report are ones that many states are grappling with as they experience the promises and pitfalls of privatizing social services. The Personal Responsibility Act in some ways encourages states to give private agencies a greater role in welfare programs. As we argued in our *Overview Report*, the fact that federal welfare reform stresses work as a goal has led many states to emphasize employment services as a means, and these services have traditionally been delivered by private as well as public agencies. But there are other forces behind recent privatization efforts. In Arizona, Wisconsin, Mississippi, and other states, privatization was seen as a way of changing the administrative "culture" of welfare delivery systems, cultures that were viewed by some legislators and governors as discouraging work and client independence. Rather than teaching old welfare agencies new tricks, some states decided to bring in new private agencies that could be selected or dismissed on the basis of their demonstrated willingness to pursue the new objectives.

But just as we see in the New Jersey experience, even if contracting makes sense, there are conflicting ideas about how the contracting system ought to be structured. Many states are devolving important administrative responsibilities down to local governments and local offices of state agencies, a tendency we call "second order devolution." And many of these local offices are contracting with an incredible variety of *local* service agencies — nonprofit, for-profit, *and* public institutions, often at the same time. This complexity, diversity, and localism in many state welfare systems have certainly moved discretion down to people and organizations who know local needs and circumstances, but it also poses new challenges for local public and private agencies to monitor and enforce performance and satisfy the data-reporting demands of federal and state agencies. Unless local capacity-building is taken seriously, imposing data-rich accountability may either fail or eventually lead to even greater reliance on large, highly professionalized, well-experienced (some say entrenched), and frequently for-profit providers, a reliance that may undermine localism and competition over the long run. To address these tensions, there is a pressing need for state and local governments to adopt the kind of approach Roper argues for: uphold standards but go beyond the role of traditional contractor by nurturing the capacity and involvement of a wide array of private providers.

Richard Roper's analyses in this paper draw from his work as Director of the New Jersey Field Research Team for the State Capacity Study, a project conducted by the Federalism Research Group of the Rockefeller Institute of Government. The project was designed to describe and assess how state and local governments are implementing and managing their social service programs. An *Overview Report* has been released (**http://www.rockinst.org/appam.html**) and several other reports on the field research in 19 states are forthcoming, including a special report on privatization and welfare reform. A more complete description of the study may be found at the end of this report. Financial support for Roper's work in New Jersey was generously provided by the Fund for New Jersey and the Schumann Fund for New Jersey. General support for the State Capacity Study comes from the W. K. Kellogg Foundation and the Edna McConnell Clark Foundation.

Thomas L. Gais, Director, Federalism Research Group

December 23, 1998

A Shifting Landscape:

Contracting for Welfare Services in New Jersey

Richard W. Roper

The nation's push to reform its welfare system has generated anxiety and fear among those who depend on public assistance. Yet, in New Jersey, welfare recipients appear less anxious and fearful about the reforms than do many of the organizations and agencies that contract with state and local governments to provide services to the welfare population. The state's nonprofit and for profit social service providers are concerned that welfare reform will alter the carefully developed relationships they have built with government agencies with which they contract. The changes they worry about have little to do with the rules governing cash assistance; instead, the providers look askance at modifications to the welfare services delivery system that affect the way contracting is done.

New Jersey's provider agencies have reason to worry. The administration of Governor Christine Todd Whitman, like administrations before it, concluded shortly after the governor's 1993 election to office that the state exercised less control over the agencies with which it contracted for a range of social services than seemed appropriate. To the governor's senior policy staff, it appeared that the agencies providing such services as group homes for the developmentally disabled, residential treatment for emotionally disturbed children, child care, job related assistance, and substance abuse treatment needed to be examined on issues of accountability, efficiency, and diversity. The Department of Human Services (DHS), the state agency responsible for providing social services to needy children and families and vulnerable adults, was instructed in 1994 to evaluate the state's relationship with these agencies and to advise what changes needed to be instituted.

DHS approached its task initially as an opportunity to cut the budget. Governor Whitman's election to office was closely linked to a promise to cut taxes; to do this, government expenditures had to be reduced. Three years later, after state budget pressures had eased, enactment of Temporary Assistance to Needy Families (TANF), the new federal welfare block grant, presented yet another opportunity to examine the state's relationship with private service providers. Welfare reform, however, shifted the focus of state attention to the role these agencies could play in carrying out the goals of Work First New Jersey (WFNJ), the state's new welfare program. DHS identified three changes in policy the administration should pursue: 1) instituting performance based contracting; 2) promoting more comprehensive services by the agencies; and 3) broadening the array of participating service providers. State officials maintain that these changes are important to welfare reform because of their implications for program quality and cost. The governor's policy chief indicates that, in addition to being important to welfare reform, the changes reflect the administration's desire to ensure that contractors provide the services for which they are paid and that less entrenched providers are given contracting opportunities.

The Whitman Administration has moved aggressively to implement the changes identified by DHS. As it pursues a more efficient and accountable welfare-related services delivery system, the administration confronts the need to balance this goal against the equally desirable goals of maintaining local flexibility and control, and assuring that the allocation of service functions between private providers and government agencies is consistent with the capacities of each. It appears, however, that welfare reform may be pushing the administration to focus most of its attention on the first goal, that of enhanced efficiency and accountability, at the expense of other goals.

Contracting for Welfare Services: A Relationship of Convenience

Welfare in New Jersey is administered by county and municipal agencies under state supervision. Funding for cash benefits and welfare service is provided 50% by the federal government, 45% by the state, and 5% by

the county. Administration costs are shared on a 50-50 basis by the federal government and the counties; the state does not contribute to this cost but has agreements with the counties to pass through federal funds. The state contributes 100% of the cost of municipal General Assistance (GA) cash benefits; the municipalities are responsible for 100% of the cost of GA administration.[1]

New Jersey's 21 counties have responsibility for providing the full range of services to which welfare eligibles are entitled, including cash payments, food stamps, emergency assistance, transportation services, child support and child care, job readiness, job placement, and some skills development. In addition, each of the state's 566 municipalities administers a local General Assistance (GA) program that provides cash assistance to single, childless adults. Policies governing the operation of these two programs are established by state government, which through the Division of Family Development (DFD)[2] in the Department of Human Services (DHS) provides broad program oversight in accordance with federal and state laws and regulations.[3] Because of New Jersey's tradition of "home rule,"[4] in which municipalities and counties exercise powers in broad areas of governmental services, localities have considerable discretion in several areas of program operations, including control over many personnel decisions and contracting with social service provider agencies. Home rule is very strong and makes state officials wary of over-regulation; state oversight of local welfare agencies, therefore, tends not to be heavy handed.

Staff in the county and municipal welfare offices carry out welfare eligibility determinations and provide cash assistance payments, assist clients in identifying and accessing welfare services, and provide client supervision. Most ancillary services received by this population, however, are purchased from the state's approximate 1,500 social services provider agencies. Transportation assistance, child care, job readiness, job search and placement, and skills development are among the services purchased annually by welfare agencies on a purchase-of-service contract basis. One exception to this is a small voucher demonstration project operated by the state's Department of Transportation (DOT) in several counties as part of the new Work First New Jersey (WFNJ) welfare to work initiative.

Most contracts for services are awarded by the county human services department under a subcontract relationship with the Division of Family Development (DFD). In addition, the DFD administers directly several contracts for programs that have a statewide impact. In this category are programs intended to improve minority males' parenting skills, promote teenage pregnancy prevention, and offer remediation and training services to the Latino population. Also, during 1997 as WFNJ got underway, the state implemented a special one-year initiative to bolster statewide job development and placement services. Supplemental contracts for job services were arranged by the state in order to expand the range of referrals available to welfare clients. These contracts were in addition to both the county contracts and the direct state contracts.

As Table I indicates, state government spent more than $184 million[5] to purchase welfare related services in 1997. Contracts awarded for these services are typically on a fee for service basis. In almost all cases, they are awarded to the lowest bidder responding to a request for proposals (RFP) issued by either the state, county or municipal human services agency under rules established by the DFD. The vast majority of these contracts are issued by county government.

A small number of county purchase-of-service contracts is also administered directly by the DFD. Direct state involvement in the award and management of contracts has been rare and has occurred when strong evidence existed that a county was unable or unwilling to provide state mandated welfare related services. In fact, only once has the state exercised its authority in this area. This happened in 1997 when approximately 60% of the contract dollars awarded in Essex County were awarded by the state for job development, training,

1 New Jersey Department of Human Services, *Comparison of NJ's Old Welfare System and the New WORK FIRST NJ Program*, revised 8.7.97, 2-3.

2 The Division of Family Development (DFD) is the agency within the DHS responsible for managing the state's welfare program. It supervises county and municipal welfare operations, collects all data relating to those operations and files reports concerning the program to the federal government.

3 Helen M. Kushner, ed., New Jersey Spotlight on Government, 3rd ed. League of Women Voters of New Jersey, (Rutgers University Press, New Brunswick, NJ, 1978), 268.

4 Ibid, 68.

5 State of New Jersey Budget, Fiscal year 1997-1998, Grants-In-Aid section which includes funds allocated, by Department, to various public and private, nonprofit agencies for state supported services, E-24.

Table I
New Jersey Division of Family Development (DFD)
Grants-In-Aid, 1997 Adjusted Appropriations
(thousands of dollars)

Work First New Jersey — Child Care	$100,320
Work First New Jersey — Work Activities	59,014
Work First New Jersey — Training Related Expenses	13,831
Work First New Jersey — Community Housing for Teens	1,431
Social Services for the Homeless	7,778
Mini Child Care Centers	316
Minority Male Initiative	160
Community Law Health Project	116
Restricted Grants	1,460
Total Grants-In-Aid	$184,426

Source: State of New Jersey Budget, Fiscal Year 1997-98

and placement services. Karen Highsmith, DFD director during this period, indicates that the state took this action because of the high need for services in Essex and the relatively low capacity of the county human services agency to handle the necessary contracting. County officials maintain, however, that the state's intrusion into county administrative affairs had more to do with politics than with local capacity to perform the contracting function. But since both the county and state administrations were then and still are under Republican control, the charge of political influence rings hollow.

As Table II shows, of the 120 contracts awarded in 1997 to provider agencies by the DFD, 91 or 76% were awarded by county government. County officials maintain that winning a contract is based upon the quality of the proposal submitted and the reasonableness of service delivery costs. The quality standards against which proposals are measured, however, tend to be rather vague; they are often applied with greater or lessor rigor depending upon the proposal-submitting agency. In New Jersey, especially in the counties, relationships matter in the process of awarding contracts for social services. This observation is consistent with the findings of Steven Smith and Judith Smyth in a study on contracting for substance abuse services in North Carolina. They argue that the "relationship between the government contract administrators and the personnel of the service agency is of critical importance in contract award decision-making." Government officials, they argue, purchase care from nonprofit and for profit providers they trust to provide good quality service at a reasonable cost.[5] Consequently, agencies that have established contracting relationships with the government are more likely than not to get more contracting work than are agencies without this history. A senior official in DFD's Fiscal and Management Operations Unit reports that between calendar years 1995 and 1997 approximately 90% of the contracts awarded were renewals from the previous year.

The Growth of a Public-Private Partnership

William Waldman, the recently retired Commissioner of the New Jersey Department of Human Services, points out that the current relationship between state government and the social services provider community evolved over many years. The Kidde Commission[6], established to review and reform the state's social welfare bureaucracy, recommended in a 1959 report that the state's social service agency, then called the Department of Institutions and Agencies (I&A)[7] "receive greater powers to approve and supervise private charitable

5 Steven Smith and Judith Smyth, "Contracting for Services in a Decentralized System," *Journal of Public Administration Research and Theory*, 1996, No.2, 277-296.

6 James Leiby, *Charity and Corrections in New Jersey: A History of State Welfare Institutions* (Rutgers University Press, New Brunswick, NJ, 1967), 354.

7 The Department of Institutions and Agencies was established in 1918 to provide professional management of the state's welfare institutions. Directed by a State Board of Control, whose members were appointed by the Governor, the Department supervised state hospitals and prisons.

Table II
Work First New Jersey
Purchase of Service Contracts, 1995-1997

	1995		1996		1997	
	Number	*%*	*Number*	*%*	*Number*	*%*
Total Contracts	**97**	**100**	**98**	**100**	**120**	**100**
Direct DFD Contracts	18	19	16	16	29	24
County Subcontracts	79	81	82	84	91	76

Source: Fiscal and Management Operations, Division of Family Development, New Jersey Department of Human Services.

associations and institutions, since these were obviously important parts of the web [of services in public assistance]."[8] It also recommended the award of grants-in-aid to local volunteer associations or institutions providing assistance and services to children, the aged, and the retarded.[9] These local associations were viewed as helpers in the statewide welfare services delivery system. This system had at its core, however, a set of state-operated residential institutions and state-supervised county-based assistance agencies, which were the principal means of serving clients under state supervision or in need of public assistance.

Beginning in the 1970s, however, New Jersey began shifting from primary reliance upon state-operated bureaucracies to dependence upon private, mainly nonprofit agencies for a range of welfare-related services. This change in emphasis was in large part a response to federal policies of the Nixon Administration that encouraged community-based services, and through financial inducements, shifted responsibility for a number of federally sponsored social and economic programs to the states and localities. As Richard Nathan writes, "Over the past 25 years, state and local governments increasingly have contracted with nonprofit organizations for these (governmental) services. . . . One can think of the nonprofitization movement that has occurred over the past two and a half decades as moving power and responsibility from a higher level (state and local government) to community-level organizations."[10] Nathan asserts that the relationship that has evolved between government and nonprofit groups is today "one of mutual dependence."[11]

The movement toward community-based programs was further spurred in the state by the perceived inability of the Department of Institutions and Agencies to spend in a timely fashion the new federal money coming into the state. Robert B. Nicholas, recently retired director of the Division of Developmental Disabilities (DDD) in the DHS who began his state government career on the research staff in the DIA's Bureau of Children Services reflected on this period in state government. Nicholas states that early in the first term of the Brendan Byrne Administration (1974-1978), a loud cry arose from the state's public welfare and human service advocacy community over the administration's failure to expend $10 million of its federal $87 million Title XX Social Services grant. In response to the outcry, the DIA quickly devised a plan to get the money into the hands of community-based organizations with the capacity to provide some of the services Title XX made possible.

Nicholas points out that the rush to "get the money into the hands of those closest to the problems" while addressing the immediate political concerns of the administration, created other problems that, perhaps, should have been anticipated. Not all the agencies the state turned to for services were equipped to manage the funds they received. By late 1975, financial accounting problems experienced by a number of child care centers had become a public issue. It led the Byrne Administration to impanel a special Task Force to review the management practices of the Division of Youth and Family Services (DYFS), the successor agency to the Bureau of Children Services. The Task Force, chaired by Walter Wechsler, a respected former state budget director, submitted its report[12] to Governor Byrne in late 1976. It recommended a reorganization of the division

8. Leiby, 393.

9. Ibid, 397-403.

10. Richard P. Nathan et al., "The 'Nonprofitization Movement' as a Form of Devolution," in *Capacity for Change? The Nonprofit World in the Age of Devolution*, Indiana University Center on Philanthropy, 1996, 24.

11. ibid.

and a series of operational and fiscal management changes to correct weaknesses in state oversight of the accounting procedures and fiscal operations of child care centers with state purchase-of-service contracts. The Task Force was not asked to address — and did not discuss — the implications of the growing role of provider agencies in delivering social service.

The state's shift to a heavier reliance upon social service provider agencies resulted in the emergence of a much broader array of providers and an expansion of the kinds of services these agencies offered. Today, the agencies the state contracts with include local churches, community development corporations, advocacy groups, as well as large and small nonprofit social service providers. A small number of for-profit agencies, primarily involved in education and training activities, have also gained a foothold in the state. These agencies — like Educational Training Institute (ETI) in Passaic County, Worldwide Education Services in Essex County, and Curtis Associates in Hudson County — are competing effectively with nonprofit providers for a share of government's social services contract dollars. Although other management problems[13] would draw critical public attention in the state's relationship with contract service providers, they would not alter the direction of state policy with respect to the use of these agencies as providers of social services.

Other Pressures for Change

Not all of the problems associated with the management of purchase of service contracts have been part of the public discussion. During the 1980s, a number of problems were identified by the provider agencies themselves, problems having to do with the way state contracting was being managed. But many of the problems providers complained about involved the operational impact of tightened financial accounting practices achieved through earlier management critiques. The system the providers found wanting was the outgrowth of reforms instituted to correct slack management in past years. Providers felt the state had evolved an inflexible management system, one that limited their ability to deliver services efficiently.

Mary Wells, director of Burlington Family Services, a large social service agency in Burlington County, indicates that she served on a Task Force established in 1982 during the administration of Republican governor Thomas Kean that labored for seven years on how to address the budget management issues raised by the contractors. At its conclusion, the Task Force proposed a set of changes that included permitting greater budget flexibility, assuring stable funding for constant levels of service, requiring maintenance of staff client ratios, permitting pre-approval of equipment lists, and helping agencies spend their full budget allocations. These changes were implemented by the administration of Governor James Florio after his election in 1990. However, Wells argues that many of these changes — long sought by the providers — were rescinded early in the Whitman Administration because of concerns about the state budget impact.

Elected on a platform that had as its key feature a promise to reduce the state's personal income tax by 30% over three years, Governor Whitman moved quickly to cut government operations in order to keep this promise. Her first budget, for fiscal year 1995, recommended $123 million less than the 1994 fiscal year budget and incorporated the tax cutting and government downsizing themes of her campaign.[14] In state social services operations, budget pressures had the most pronounced impact on the Division of Youth and Family Services (DYFS), where funding and staff reductions were accompanied by an increase in caseloads. The impact of these reductions was exacerbated by the fact that the DYFS had suffered severe budget cuts during the Florio Administration. Budget reduction pressures continued into the administration's second year but had eased considerably by the beginning of year three. In fact, economic conditions in New Jersey improved to the

12 Report of the Task Force on the Operation and Management of the Division of Youth and Family Services, December 1976.

13 Reports critical of the DYFS published by the Association for Children of New Jersey (ACNJ), a highly regarded private child advocacy organization, led to programmatic and management reforms in the agency. The 1985 report, entitled *Splintered Lives*, was a critique of New Jersey's Foster Care system. DYFS developed a "corrective plan" in response to the report. *Stolen Futures*, the title given the 1989 ACNJ report, confirmed that the corrective plan was working but also highlighted the fact that adult substance abuse was having a pronounced impact on child welfare and that the DYFS was not doing enough to address the problem. Also in 1989, the Division of Developmental Disabilities (DDD) became embroiled in a major financial scandal that resulted in the division director being forced to resign because he had routinely exceeded budget authority in awarding purchase of service contracts. Budget management reforms were instituted throughout the DHS to prevent this from happening elsewhere in the agency.

14 Association for Children of New Jersey, "Urban Institute New Jersey Background Paper," Newark, NJ, January 1997,2-27.

ment that the governor was able to fulfill her tax cut promise in two rather than three years. In addition, the Whitman Administration, responding to concern about cuts in social services, appointed a Task Force to examine conditions in DYFS and subsequently provided additional funds to hire more agency caseworkers and support staff, as well as funds for a major foster-care initiative.

The upturn in the state's economic prospects, however, did not result in a restoration of the budget management reforms service providers had achieved during the Florio Administration. Instead, the Whitman Administration continued its pursuit of cost reductions and sought other ways to tighten oversight of its purchase-of-service contractors.

The push within the Whitman administration for a different set of reforms gradually took shape, driven less by a concern about the mechanics of contracting but rather about some contracting fundamentals. The Administration called into question many aspects of the contracting system. Department of Human Services policy staff began to examine the basis upon which agencies were selected to participate as contractors, the mix of purchased services, the existence of quality standards, and the method of service evaluation. These were issues that went to the heart of the relationship between government and the provider agencies involved in purchase-of-service contracting. Eileen McGinnis points out that the administration felt the need to introduce new participants to social service contracting, wanted to stimulate innovation and creativity in service delivery, and lessen the perception that the providers were an extension of government.

The Whitman Initiatives

When the Whitman Administration assumed office in November 1993, it encountered a social service contracting system that could be described as fairly stable, decentralized, complex, and in the view of many, inbred. This system, which evolved over many years, was grounded in a relationship of mutual dependence between government agencies and private service providers. County welfare offices, where most purchase-of-service contracts originated, worked closely with the service provider agencies to define what services welfare clients needed and how those needs could be met. The relationship between the state welfare bureaucracy and the service provider community was no different. Some of the provider agencies are profit making, but the vast majority are small, locally based nonprofits. Although the state supervised local contracting, the counties and municipalities operated with considerable flexibility. The system was one the administration, like others before it, wanted to change. All earlier attempts by both Democratic and Republican administrations to this end, however, had fallen short of what state officials felt was needed. But the intense focus on budget cutting in the Whitman Administration's first term and the push for welfare reform in 1996-97 presented this administration, it sensed, with the opportunity to affect change.

The administration had initially focused on changes to the social service delivery system as part of its strategy to free up funds to pay for the governor's tax cut. But, by early 1996 improvements in the state's economy had removed the need to cut the budget as a legitimate rationale to make changes. Welfare reform, however, provided another rationale. As part of the July 1997 implementation of WFNJ, the administration argued that modifications to the welfare services delivery system had to be made if the new program was to succeed. Linking proposed service delivery changes to WFNJ offered more certainty that the administration would get much of what it sought. Policy proposals presented as important to the success of the state's highly popular welfare reform effort, even ones that affected local government, were well protected against rejection or alteration by the legislature. In fact, it was not easy for anyone to be opposed to the goals the administration advanced concerning government's expectations of its purchase of service contractors.

Providers Must be Accountable

Kathy Krepcio, the director of policy for the DHS, maintains that the new buzz words in state government as pertains to purchase-of-service contracts is *accountability through quantification*. The administration has determined that social service provider agencies must specify outcomes achieved in fulfilling their contractual obligations. Krepcio says that agencies are now required to demonstrate that the services they provide are, in fact, working and if they cannot do so, run the risk of losing their contracts. To assess how well contractors are meeting their targets, the administration has embraced performance contracting for welfare-related services.

This new thrust is expected to have a major impact on the nonprofit provider community, accustomed as it is to being evaluated more on the basis of process than on outcomes.

Once selected to provide a welfare-related service such as job readiness or skills development training, the principal measure of a contractor's success in fulfilling the contract has typically been the number of clients served. Virgin Velez, director of Training and Employment Services for Mercer County, indicates that contracts awarded by her agency for job training have always had placement and retention requirements although payments to contractors were 75% for training, 10% for job placement and 15% for retention after 90 days. Krepcio says the new focus, consistent with the goals of WFNJ, is exclusively on how many people are placed in jobs and how long they remain in those jobs. To reinforce the state's commitment to job placement and retention, contractors will be paid on a cost reimbursement basis for those clients placed in permanent jobs[15]. The first RFP issued after this policy change was instituted specified that up to 20% of the per capita cost of the contract be awarded at the point of client placement in full-time (35 hours a week minimum), unsubsidized, permanent jobs; up to 30% will be awarded for successful placement of three months duration or when the client's cash grant is reduced to zero; and the remaining 50% will be awarded for successful placement of six months duration.

While Krepcio thinks performance-based contracting will involve a difficult adjustment for nonprofit providers, it will be less a problem, she thinks, for the small but growing number of for profit providers. The latter group, according to Ken Ryan, president of Educational Training Institute (ETI), a for-profit agency based in Ringwood, NJ, that provides job search training, job placement and follow-up services, has had more experience responding to expectations of measurable outcomes in their contracting work. ETI also operates workforce development programs in ten other states. In Massachusetts, it has a performance-based contract to provide one-stop career services to 3,975 job seekers and over 700 employers. Ryan says that meeting performance-based contracting requirements in New Jersey will not be an obstacle to doing business here.

What Ryan worries about, he maintains, is the fact that as currently framed, New Jersey's performance-based contracting model requires contractors to assume considerable risk. Contractors can only serve the clients who come through the door. All referrals come from welfare agencies and if those referrals aren't made, contractors will not make any money. Ryan says that he can foresee instances when counties will be slow in making referrals either because of slack management or a decline in the number of clients in the system. When this happens, contractors will be in a pinch and will lose money. This will be problematic for all contractors but especially the for-profits. George Piegarro, training director at Catholic Community Services, one of New Jersey's largest nonprofit provider agencies, says that the trickle of referrals from Essex County during the last six months of 1997 was, in terms of his budget, a real cause for concern.

County officials are somewhat ambivalent about the state's intent to make changes in the relationship between government and the provider agencies. They view proposed changes as part of the state's overall welfare reform effort, which they have not yet determined is serious. The state's lackluster past performance in welfare reform does not inspire great confidence. Furthermore, the relationships built between the counties and their purchase of service contractors are generally what the parties want. These relationships are based on longstanding collaboration and mutual support; county officials have no desire to see them changed. Yet, local officials are not unresponsive, in the main, to performance contracting. They do wonder, however, whether the requirement will impact at all the culture of dependence that welfare breeds and that overwhelms all attempts to uplift the lives of welfare recipients. This, said an official in Essex County, is where state policy should be focused. County officials, along with many small nonprofit providers, are also concerned that only large nonprofit and the for-profit provider agencies will be able to meet the state's new performance criteria. In a recent article in the Newark *Star Ledger*, Sheila Oliver, an Essex County legislator, expressed the view of many county officials in saying that the large, more experienced, more multi-funded agencies are probably capable of responding to performance-based contracting requirements. She questioned, however, whether a smaller agency with less capital on hand could compete.[16] This concern highlights a second change the administration has pushed.

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15 Departments of Human Services, *Departments of Human Services and Labor Request for Proposals Work First New Jersey Statewide Performance Based Contract for Job Development and Placement*, Division of Family Development, April 7, 1997.

Providers Must be More Efficient

The Whitman Administration came into office with a predisposition to privatization. Purchase-of-service contracting, therefore, is consistent with the administration's commitment to "outsourcing," the practice of engaging private providers, typically for-profit organizations, to deliver public services. This practice was viewed primarily as an effective means of achieving budget reductions without sacrificing quality. Eileen McGinnis, of the governor's policy office, says the administration believes that labor costs are lower and service quality better in the private sector — that the private sector is more efficient. Consequently, the governor's policy staff proposed that more state services be outsourced. While earlier administrations had "privatized" some state government functions, such as accounting and data management, the Whitman administration's position in this regard is that privatization should be applied to the full range of state services. The successful privatization of New Jersey's network of automobile inspection stations is perhaps the best example of the administration's commitment to this concept. The administration also privatized New Jersey's state-operated Medicaid HMO and presided over the privatization of the last of the 22 state-operated child care centers.

While privatization is viewed as an important component of the push for more efficient services, the administration also believes that "bundling" welfare services in order to provide comprehensive services offers promise of greater efficiency. Comprehensive service delivery, also called service integration, has been a gleam in the eye of many senior human services administrators over the past ten years. Typically, the focus of service integration efforts has been on reducing service duplication and or consolidating related services offered by state, county, and municipal welfare offices. In the past, service integration was not required or expected of provider agencies. Agencies offering comprehensive services did not have a comparative advantage in contract bidding over those not doing so. The Whitman Administration has moved to change that. Perhaps because so little progress has been made in transforming a highly segmented welfare system into one in which services are grouped for easier client access and, state officials would argue, more efficient service delivery, the focus on getting provider agencies involved is, therefore, not surprising. County officials and purchase of service contractors view it as simply new wine in an old bottle.

Bruce Nigro, the deputy director of the Essex County[17] Division of Welfare, believes that the comprehensive services policy presents the larger provider agencies with the opportunity to expand their operations by adding services. The smaller agencies, he feels, will be forced to merge with other agencies or form collaborations in order to compete for contracts. This is actually what the state would like to see happen. Commissioner Waldman acknowledges that mergers and consolidation will be forced upon some of the state's 1,500 provider agencies. Some of this, he maintains, is already occurring and more of the agencies will have to restructure to become competitive.

The Universe of Contractors Must be More Diverse

The issue of diversity is clearly more politically driven than the other changes the administration is pursuing. The belief that some provider agencies are too powerful and need to have their influence diluted is strong within the administration. One member of the Governor's policy staff believes that some of the big agencies are so strong and influential that they can define policy by their ability to block changes they don't like. This staff member recounted the recent experience of the DHS when it advanced a policy to reduce the use of group homes for the developmentally disabled. The Association for Retarded Citizens (ARC) opposed the administration proposal and vigorously fought its implementation. In New Jersey, the ARC operates group homes in almost every county. The organization also honors at least one legislator from each county at its annual dinner. They get the attention of legislators when they complain. An organized outreach to the legislature opposing the administration plan caused the plan to be dropped. The ARC is not alone among the provider agencies in its ability to affect policy in ways that suit its interests.

The administration believes that the strong relationships some providers have built with the legislature and with local government officials reinforce relationships with the bureaucracy and often prevent the admin-

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16 Diane C. Walsh, "Freeholders Review Welfare Reform Plan," *Star Ledger*, 8 May, 1198 OE33.

17 Essex is the second largest county in the state. Newark, the state's largest city with the largest welfare caseload, is the county seat.

istration from implementing its social welfare agenda. The administration would like to curtail the influence of these agencies but is reluctant to move forcefully against them. An alternative but not very promising approach to reducing their influence, the administration believes, is to diversify the pool of agencies upon which the DHS depends for services and gradually replace some of the more entrenched agencies.

Implementation of this policy would permit the administration to pursue yet another important objective — to engage the minority community, principally the African-American and Latino communities in projects of mutual concern. Accordingly, a concerted effort has begun to recruit community and neighborhood groups and faith-based organizations to participate in administration-sponsored social service and economic development programs. McGinnis says that the Governor is particularly interested in securing the involvement of the faith-based community in purchase of services contracting. There is considerable interest in the minority community in developing a working relationship with the administration in these areas but there is also realization that local capacity must be carefully assessed. Reverend William Watley, pastor of St. James AME, a large African-American church in Newark, stated recently at a conference on collaboration between churches and state government that not all churches can or should participate in such efforts because many, perhaps most, don't have the capacity to do so successfully. State government should choose its faith-based partners carefully, he warned.[18]

In practical terms, the counties have few incentives to embrace the state's proposal to broaden the array of contracting agencies. Instead they have quite a few reasons to resist. Like state welfare agency staff, county human services officials and their subordinates have established strong working relationships with the staff of the service provider contracting agencies. But, because of home rule, the counties have more flexibility in how they manage such issues as who gets invited to bid and who subsequently gets selected to provide services. Officials in Essex County explain, for example, that in a number of instances, contracts may get renewed without going through the bidding process. The reason for this is that officials believe it is in the public interest to keep successful contractual relationships in force as long as possible. Once a provider has demonstrated the ability to deliver average or better service on a consistent basis and has become familiar with the county's administrative and program requirements, officials argue, the case for continuing a contractual relationship is quite strong. And, if the supply of acceptable providers is finite, it is difficult to justify not sticking with the provider you know.

County officials have an additional, perhaps more compelling reason not to alter their contracting arrangements, which has to do with the realities of county budgeting. As officials in both Essex and Mercer Counties recounted, few county budgets, especially those in the large urban counties where welfare caseloads are greatest, are approved on time. The welfare agencies, as a consequence, often don't know until well into the year what level of funding they can expect from the county legislature. They are, therefore, in a poor position to solicit proposals from prospective service providers. Contracts already in force, however, can simply be carried over into the next fiscal year. Those contractors already in the system serve, in effect, as a safety valve for agencies seeking to maintain services during periods of budget uncertainty. This arrangement benefits all parties. The welfare agencies benefit because they are not forced to eliminate services for lack of new budget authorization; the contractors benefit because they avoid the threat of losing their contracts to more successful bidders; and the clients benefit because services are maintained without interruption.

Just How Serious Is the Administration?

Mary Wells, the long time director of Burlington Family Services, one of the largest service provider agencies in the southern part of the state, maintains that performance contracting, service provider diversification, and the promotion of service integration have each been the focus of attention by previous state administrations. Indeed, efforts to implement performance contracting and service integration have been attempted on a number of occasions over the last ten years. But never have all three been the subject of the sustained attention the Whitman Administration has been giving them.

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18 New Jersey Conference of Mayors, Conference on State Collaborations with Faith-Based Organizations, Metropolitan Baptist Church, Newark, NJ, June 30, 1998.

The administration gained important leverage in pursuing these issues as WFNJ was being implemented. Enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the federal law that replaced Aid to Families with Dependent Children (AFDC) with the new national welfare program, Temporary Assistance to Needy Families (TANF) encouraged a complete overhaul of state welfare systems. When New Jersey redesigned its assistance program, it also pushed for changes in the state's welfare services delivery system that Eileen McGinnis states the administration felt were long overdue.

Strengthening the Delivery of Welfare Services

From its beginning, the Whitman Administration has questioned the "cozy relationship" between the social service provider agencies and the state and local welfare offices bestowing purchase-of-service contracts. To many in the administration, the provider agencies appeared to be benefitting more than appropriate from a system that, as Commissioner Waldman states, is intended to serve not them but rather the state's dependent population.

The changes in welfare being implemented in New Jersey extend beyond program operation issues, such as eligibility time lines, work requirements, and rigorously enforced sanctions for noncompliance with the rules. Although receiving scant public attention, other changes that impact how welfare services are to be delivered in New Jersey are slowly being implemented. Three of these changes seek to alter the relationships between state, county, and municipal welfare offices and the social service agencies that provide contract services to welfare clients. Contractors are being required to adhere to performance standards established by the state welfare agency as a way of ensuring greater accountability; they are being encouraged to offer a more comprehensive mix of services in hopes of achieving economies of scale and, thereby, greater efficiency; and the pool of potential service providers is being enlarged in the hope of broadening the diversity of types of service providers and perhaps reducing the influence of some of the more entrenched larger provider agencies.

The changes being implemented are intended to strengthen the welfare services delivery system and to make it more accountable to state government. But each of the three changes discussed in these pages will have the intended effect only if attention is given to several important implementation issues discussed below. These issues are presented as recommended actions that will facilitate the Whitman Administration's policy changes in welfare services delivery. They assume that performance-based contracting is established state policy and that counties will retain their central role in contracting for services and in contract oversight.

1. Minimum capacity criteria should be established by the state to ensure that nonprofit agencies seeking to participate in purchase-of-service contracting are actually capable of providing the services. These criteria should be clear; they should be enforced fairly; and they should establish a reasonable bar that all prospective service providers must pass in order to have a proposal considered.

The administration's desire to enlarge the pool of participating purchase of service contractors should be implemented with care. Agencies and organizations must be screened to ensure that those awarded contracts have the capacity to perform the tasks government seeks. While many neighborhood and community based organizations may view the administration's welcoming attitude as an opportunity to obtain government funds to provide services needed by local residents, they may not be capable of delivering those services. The faith-based community has been singled out for special attention by the administration as desired partners in the delivery of social and economic development services. While some faith-based organizations, like Catholic Community Services, have long been involved in the provision of social services and are quite good at it, most such organizations in the minority community do not have this experience. Many, however, now view the opportunity to participate in service delivery as government's long delayed recognition of the important role they play in their communities.

It is quite clear, though, that only a few of these faith-based organizations have the experience, management and financial skills, and familiarity with service delivery successfully to fulfill a purchase-of-service contract. To ensure that organizations are not permitted to take on tasks they are not equipped to handle, minimum capacity criteria should be established and applied to all organizations seeking to enter a purchase-of-service agreement with the government. The criteria should establish minimum standards with

respect to numbers of staff, program management experience, financial management capacity, and staff familiarity with the service to be provided. Those agencies and organizations not meeting the criteria should be ruled ineligible to receive service contracts.

2. State and county welfare agencies should provide incentives that promote cooperative relationships among nonprofit provider agencies to ensure that smaller agencies can compete successfully for service contracts. Incentives could include the provision of technical assistance in finance and management to reduce costs and, thereby, improve cost competitiveness when two or more nonprofits propose to offer services on a cooperative basis.

Many of the small agencies and organizations interested in competing for service contracts believe they can successfully deliver services with some assistance. Often the assistance needed can be obtained from other agencies and organizations that also are looking to gain entry to government contracts for purchased services. Cooperative arrangements between organizations can result in shared use of scarce resources, the acquisition of needed resources, and economies of scale that make cooperating organizations more competitive than they would be otherwise.

The DHS realizes that collaboration, cooperation, and consolidation among small service providers may result in the creation of a larger pool of participants. DHS officials believe this would be a positive development; and given this view, the state should provide incentives to further this outcome. One strong incentive that should be considered is the award of preferential ranking for proposals submitted by cooperating agencies and organizations of limited size. Giving group applications favored treatment in this way would surely encourage more cooperation among smaller organizations.

3. Counties should be provided with resources to improve their ability to monitor contractor performance. Administration of new welfare rules require county staff to perform new workforce related tasks. Staff will need training to carry out many of these functions and they will need new resources to strengthen their capacity to oversee performance contract management.

Budget cutting has affected all levels of government and New Jersey counties are no exception. Tight budgets mean stable or reduced staff being asked to do more with less. So has it been in the provision of welfare services. WFNJ has imposed new responsibilities on local welfare staff but without an increase in resources. The DHS requirement that purchase of service contractors meet certain performance standards adds to the workload of county welfare workers. How well contract monitoring is done will be determined by the level of resources applied to this task. County human services staff will need training to perform the new functions assigned them under WFNJ and they will require staff augmentation to carry out these responsibilities successfully. The DHS should consider committing additional resources to enlarge county welfare staff and for staff training.

About the Author

Richard W. Roper, principal of The Roper Group, has had a 25-year career in public affairs. He has held senior-level positions in local, state, regional, and federal government agencies and has experience in not-for-profit organizations and in academic administration. Prior to establishing The Roper Group in April 1996, Mr. Roper was for 3½ Director of the Office of Economic and Policy Analysis at the Port Authority of New York and New Jersey and for a brief period thereafter served as the agency's Director of Business and Job Opportunity. At Princeton University's Woodrow Wilson School for Public and International Affairs, he served in several capacities including Director of the Program for New Jersey Affairs, Executive Director of the Council on New Jersey Affairs, and Lecturer in Public and International Affairs. Prior to his experience at Princeton University, Mr. Roper held a number of positions including Director of the Office of State and Local Government Assistance and Special Assistant for Intergovernmental Relations at the Office of the Secretary, U.S. Department of Commerce. Mr. Roper holds a B.A. Degree in Economics from Rutgers University and a Master in Public Affairs degree from Princeton University's Woodrow Wilson School of Public and International Affairs.

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4. Counties need to upgrade their data collection and improve their reporting to the state on contractor performance to ensure that the state receives the information it wants and needs in order to evaluate service provider performance.

The DHS is dependent upon the counties to obtain the data needed to evaluate the performance of service providers. The state will need accurate and timely job placement, retention, and mobility statistics with which to assess contractor performance in getting welfare recipients into jobs. This is information the counties will collect and report to the DHS. Counties, therefore, should be encouraged to develop appropriate data collection instruments for use with service providers and a method for getting the information collected to the state welfare agency.

5. The state should consider guaranteeing a minimum number of clients to be served under each of its purchase of service agreements. Service providers are dependent upon welfare agencies to refer clients for job readiness, search, and placement services. If the flow of referrals falls significantly, the impact on service providers could be financially damaging.

Service providers maintain that all risk associated with the state's new performance-based contracting system has been assigned to them. Performance is assessed on the basis of the number of welfare recipients placed in jobs and the duration of those placements. Providers are prepared to be evaluated on this basis and firmly believe they can meet state, county, and local government expectations. They worry, however, about the counties' ability to maintain a flow of welfare workers who need placement. If service providers do not get welfare clients referred to them by county welfare offices, placement numbers will be adversely affected and performance goals cannot be met. This outcome, however, is something over which the service provider has no control; yet, the provider suffers the consequences of the result.

Service providers think this arrangement is unfair and may, as a consequence, be less willing to compete for job placement contracts. If this happens, the DHS may be unable to meet its placement targets and suffer a reduction in federal funding. The counties face no such prospect; they receive funds solely on the basis of the county's number of eligible welfare recipients. The DHS may need to consider guaranteeing a minimum number of referrals to assure providers that they will not be completely dependent on county action.

Summary

Welfare reform in New Jersey not only ushered in changes in the cash assistance program, it also facilitated changes in the welfare services delivery system. The changes, which impact the relationship between government and New Jersey's private social service provider agencies, are intended to strengthen the welfare service delivery system. Requiring contractors to adhere to performance standards, encouraging provider agencies to offer more comprehensive services, and expanding the pool of potential service providers are changes that shift the landscape of welfare service delivery in New Jersey.

These changes have caused some anxiety in the state's service provider community. The providers — or purchase-of-service contractors — sense that the Whitman Administration is more serious about forcing change in the welfare system than were previous administrations. They know that if the changes the administration has begun to put into effect take hold, the playing field on which purchase-of-service contracting is done will be quite different from years past. The "cozy" relationship that has evolved between the provider agencies and government welfare offices, especially in the counties where most contracting for services occurs, is being challenged. However, the state's history with welfare-related reform is not that great. Quite possibly, these changes may have the short life span of earlier reforms and, therefore, may warrant less concern than on the surface appears needed. In addition, key implementation issues involving the capacity of provider agencies, data collection and distribution, staff training, and risk sharing have to be resolved if the changes are to have the intended effect.

It will be several months, if not longer, before we can assess how committed the state is to change and the full impact these changes will have on the delivery of welfare services in New Jersey.

December 23, 1998

Overview Report of the Federalism Research Group

A preliminary *Overview Report* by Richard P. Nathan and Thomas L. Gais was presented in early November, 1998 at the meetings of the Association for Public Policy Analysis and Management. The *Report* describes research on the implementation of the 1996 national welfare reform act and summarizes findings to date from the State Capacity Study. The focus of the research is on what happens to national policies after they are enacted. The theme is that a lot is happening and that there are surprises in the implementation of the 1996 Personal Responsibility Act and its connections to other social agencies and programs.

The major changes we found among the 19 states analyzed in our first round of research were in the signals emitted by the programs, the range and complexity of tools and treatments available to welfare workers and administrators, and how power is distributed between central and local offices. Consistent with the focus on work in legislative debates over state welfare reforms, the field research shows that states are signaling the importance of work or avoiding welfare by elaborating their "up front" activities, such as diversion and pre-application job search; by putting new emphasis on compliance with detailed personal responsibility agreements; by explaining the new laws and sanctions to clients in orientation meetings; and by enhancing the role of state labor bureaucracies in the administration of welfare programs. Beyond that, some states are also imposing sanctions and increasing the availability and variety of employment-related services (such as child care and transportation). Various combinations of these Signals, Services, and Sanctions are constructing a new distribution of state and local welfare cultures, and our research shows that a particularly important divide among state and local systems is between those that stress work alone and those that put greater emphasis on avoiding welfare by whatever means.

The report also argues that the same mechanisms that are changing the goals of welfare agencies also tend to push power down to local welfare offices and their agents. This "second order" devolution is occurring in many different ways. Sometimes states are expressly granting local offices greater policy-making and administrative authority, though often power is devolved implicitly, as case workers and local administrators are forced to exercise their judgment in using the wide variety of services and tools to achieve the goals of welfare reform for a highly diverse population who face many different employment challenges. However, we note that although this new distribution of discretion and responsibility is happening in many states, those same states have not yet adjusted their information and reporting systems to give local systems the informational capacity to track families and their behavior, or to give state administrators and political leaders a good understanding of what local offices are doing and with what effects. Nor have states addressed the important equity issues that result from different local capacities to provide services and aid clients in getting jobs, such as the higher worker-caseload ratios we observe in urban offices. How to balance creativity, adaptability, and local responsiveness, on the one hand, with these issues of equity and accountability, on the other, is one of the great challenges for all levels of government as welfare reform proceeds.

The State Capacity Study

The State Capacity Study is a multi-year research project on state management systems for welfare, Medicaid, and workforce development programs. By assessing rapidly changing management systems in a large sample of states, researchers will learn what goals state leaders intend to achieve in their social programs and develop practical recommendations regarding the strengths and weaknesses of different management strategies.

The project includes two major rounds of intensive field research in 20 states. A field research director, usually a scholar who works in the state and has extensive knowledge of the state's programs and administrative systems, leads the study of each state. The states in the field sample include:

- Arizona
- California
- Florida
- Georgia
- Kansas
- Michigan
- Minnesota
- Mississippi
- Missouri
- New Jersey
- New York
- North Carolina
- Ohio
- Rhode Island
- Tennessee
- Texas
- Utah
- Washington
- West Virginia
- Wisconsin

The research will yield major reports and *Management Briefs* on state management systems beginning in 1998. This report is one in a series of *Rockefeller Reports* designed to inform and assist in the understanding of welfare legislation as it is implemented in the sample states.

Richard P. Nathan, director of the Rockefeller Institute of Government, is principal investigator of the State Capacity Study. Thomas L. Gais, a political scientist who has written extensively on political reform, is the study's project director.

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The Nelson A. Rockefeller Institute of Government
State University of New York
411 State Street
Albany, New York 12203-1003

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